

Logitech International (LOGI)

\$47.79 (As of 01/21/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Logitech's fiscal third-quarter results benefited from solid performance of Gaming, Video Collaboration and PC peripheral units. Strong performance of the existing products and a growing momentum in new products are positives. Rising adoption of new mobile platforms in both mature and emerging markets is fuelling demand for Logitech's peripherals and accessories. Logitech's partnerships with cloud providers like Zoom, Microsoft and Google as well as Alibaba in China are major positives. Shares of the company have outperformed the industry in the past year. However, weakness in the Mobile Speaker, Audio & Wearables, and Smart Home units was an overhang. Moreover, tepid sales in the Asia Pacific due to local issues in Hong Kong and continued slowdown in China sales were significant headwinds. Impact of tariffs also affected margins.

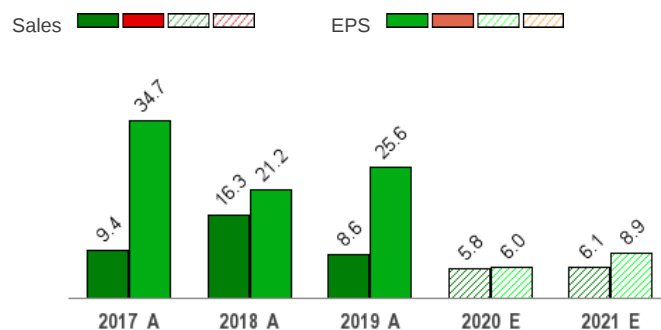
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.49 - \$34.79
20 Day Average Volume (sh)	152,425
Market Cap	\$8.0 B
YTD Price Change	1.3%
Beta	1.25
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Peripheral Equipment
Zacks Industry Rank	Top 35% (88 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.7%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	22.7
P/E F1	22.4
PEG F1	2.5
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	692 E	775 E	965 E	723 E	3,131 E
2020	644 A	720 A	903 A	684 E	2,950 E
2019	608 A	691 A	864 A	624 A	2,788 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.53 E	\$0.94 E	\$0.44 E	\$2.32 E
2020	\$0.39 A	\$0.50 A	\$0.84 A	\$0.44 E	\$2.13 E
2019	\$0.34 A	\$0.49 A	\$0.79 A	\$0.38 A	\$2.01 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

Overview

Based in Switzerland, Logitech International S.A. is the parent holding company of Logitech, a Swiss holding company. Logitech International S.A. is a global leader in peripherals for personal computers and other digital platforms, which develops and markets innovative products in PC navigation, Internet communications, digital music, home-entertainment control, video security, interactive gaming and wireless devices. The company conducts its business through subsidiaries located throughout the world.

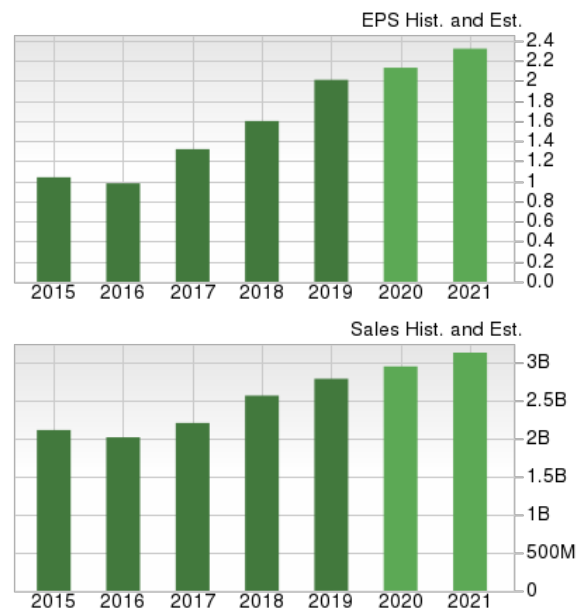
The company used to operate primarily through two business segments: peripherals and video conferencing. The Video conferencing segment included the design, manufacturing and marketing of LifeSize video conferencing products, infrastructure and services for the enterprise, public sector and other business markets. However, in the third quarter of fiscal 2016, Logitech divested its LifeSize video conferencing business, such that it now classifies only its Peripherals segment as continuing operations.

The Peripherals business consists of the design, manufacturing and marketing of peripherals for PCs (personal computers) and other digital platforms. For the PC, the company's products include trackballs, interactive gaming controllers, multimedia speakers, headsets, webcams, 3D control devices and lapdesks. Tablet & Other Accessories products include keyboard and covers.

Internet communications products comprise webcams, headsets, video communications services and digital video security systems for a home or small business.

Mobile Speakers products include wireless speakers, earphones and custom in-ear monitors. For home entertainment systems, Logitech offers the Harmony line of advanced remote controls and Squeezebox wireless music solutions.

For the full-year fiscal 2019, Logitech recorded the sixth consecutive year of growth. Revenues of \$2.8 billion grew 9% year over year. The top-line growth was 10% in constant currency year over year.



Reasons To Buy:

- ▲ Growing adoption of new mobile platforms in both mature and emerging markets are fueling the demand for Logitech's peripherals and accessories. Robust sales across product categories and strong momentum in Video Collaboration, Gaming, and Creativity & Productivity businesses, are helping the company boost its top-line. Logitech has been able to leverage its software and go-to-market capabilities to drive market share gains and growth. The company's cloud-based video conferencing services is also a key growth driver. Apart from this, growth in its tablet business has proved conducive to its top-line.
- ▲ Logitech is intending to tap the high potential market for accessories by pursuing innovation and expanding its product lines. The company has manufactured innovative offerings like fastest performing mouse and keyboard switches, wireless mouse with longest battery, and multi-device keyboards among others. Over the last one year, Logitech has introduced a number of offerings to grab a greater market share. This apart, the acquisition of earbud manufacturer Jaybird has helped Logitech expand its current product portfolio to address customers who prefer headphones over speakers. With such a strong product roster and excellent demand, Logitech is optimistic about the market traction of its offerings in coming times. Moreover, Logitech's recent acquisition of Blue Headphones is also expected to be a key growth driver.
- ▲ The acquisition of ASTRO Gaming — a popular console gaming headset maker — in second-quarter fiscal 2018 is helping Logitech carve a deeper niche in the gaming peripheral market. This acquisition is a strategic move on Logitech's part to get a jumpstart on the console market, as it has historically targeted PCs, tablets and phones.
- ▲ Logitech has been making efforts to increase returns to its investors through share repurchases and dividend hikes. We believe such initiatives boost shareholders' confidence in the stock. This apart, Logitech's solid financial health also allows it to take up acquisitions to boost core business areas.

The bullish momentum in Gaming and Video Collaboration businesses, along with the thriving cloud-based video conferencing services, will continue to be catalysts for the company's growth.

Reasons To Sell:

- ▼ The rising trend of smaller, mobile computing devices with touch interfaces and the declining popularity of desktop PCs can be a headwind for the company. Moreover, the company's sales are impacted by end-user consumer demand and therefore, the business can be negatively impacted by unanticipated shifts in consumer buying patterns.
- ▼ The market where Logitech operates is highly competitive and characterized by short product life cycles, constant new product introductions, rapidly changing technology, evolving customer demands and aggressive promotional and pricing practices. Strong competitors like Microsoft, Bose, Philips and Cisco Systems as well as increasing new entrants in Logitech's operating markets pose a threat. Therefore, in a dynamic market such as this, Logitech needs to bring in newer products that match the trend, in order to survive the competition. Consequently, the company has been experiencing significant surges in R&D expenses, which is likely to remain an overhang on the upcoming quarters.
- ▼ Logitech's business is prone to be affected by the negative impact of currency translation as the company derives highest portion of its revenues from outside the Americas. Adverse currency impact also significantly hurt the company's operating cash flow. Apart from currency fluctuations, weaknesses in political and macroeconomic conditions are adding to the company's woes. In particular, political tensions between Russia and Ukraine are posing risks for Logitech. Such external factors create unpredictability and are beyond the control of the company.

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Last Earnings Report

Logitech Q3 Earnings & Revenues Top Estimates

Logitech reported third-quarter fiscal 2020 results, wherein both bottom and top lines surpassed estimates.

Non-GAAP earnings came in at 84 cents per share, surpassing the Zacks Consensus Estimate of 77 cents. The bottom line also improved from the year-ago quarter's 79 cents.

Net sales of \$903 million surpassed the consensus mark of \$899 million and rose 4% year over year in dollars and 5% at constant currency. The year-over-year increase stemmed from strong growth in Gaming, Video Collaboration and PC peripheral segments.

Segmental Details

Logitech's Gaming segment's sales grew 15% year over year to \$245.74 million.

Video Collaboration sales witnessed a 24% rally to \$91.96 million.

Mobile Speakers' sales, however, fell 3% to \$92.97 million.

Audio & Wearables segment sales declined 17% year over year to reach \$81.93 million. Smart Home segment sales fell 19% year over year to \$15.79 million.

Logitech's Creativity and Productivity business comprises four sub-business lines — Keyboards and Combos, Pointing Devices, PC Webcams, and Tablet and Other Accessories. Revenues from Pointing Devices, and Keyboards and Combos grew 4% and 8% year over year, respectively. However, revenues from PC Webcams, and Tablet and Other Accessories declined 3% and 13%, respectively.

The company did not report any revenues from the Other segment in the quarter.

Margins & Operating Metrics

Non-GAAP gross profit rose 3% year over year to \$339.61 million. Non-GAAP gross margin, however, contracted 50 basis points (bps) from the year-ago quarter to 37.6%. The impact of tariffs remained an overhang on margins.

Non-GAAP operating expenses inched up 0.8% to \$187.97 million.

Non-GAAP operating income climbed 5.9% to \$151.65 million. Operating margin of 16.8% expanded 20 bps.

Liquidity

As of Dec 31, 2019, Logitech's cash and cash equivalents were \$656.05 million compared with \$574.5 million in the previous quarter.

Additionally, the company generated operating cash flow of \$181.12 million in the fiscal third quarter compared with \$106.5 million in the prior quarter.

Guidance

Logitech reaffirmed view for fiscal 2020. The company expects non-GAAP operating income of \$375-\$385 million.

Revenue growth is anticipated in the mid to high-single-digit range at constant currency.

Quarter Ending 12/2019

Report Date	Jan 20, 2020
Sales Surprise	0.46%
EPS Surprise	3.70%
Quarterly EPS	0.84
Annual EPS (TTM)	2.11

Recent News

On Nov 18, 2019, Logitech's brand, Logitech G, launched the Logitech G Adaptive Gaming Kit, a suit of buttons and triggers created for gamers with accessibility needs.

On Oct 29, 2019, Logitech's brand, ASTRO Gaming, launched ASTRO.ID, a program that enables gamers to create personalized headsets. Gamers can now customize the ASTRO A40 TR pro gaming headset at ASTRO.ID through an online configurator.

On Sep 26, 2019, Logitech announced that it has entered into an agreement to acquire San Francisco, CA-based software provider, Streamlabs, for \$89 million in cash. Additionally, Logitech stock worth \$29 million will be paid to Streamlabs, if certain revenue growth targets are met. Streamlabs, whose software for live streaming allows game streamers to interact and engage with viewers, is expected to provide impetus to Logitech's gaming portfolio.

On Sep 16, 2019, Logitech brand, Logitech G, launched the Logitech G604 LIGHTSPEED Wireless Gaming Mouse, designed especially for gamers. The new mouse, priced at \$99.99, is expected to hit the shelves in fall 2020.

Valuation

Logitech's shares have gained 18% in the past six months, and 35.3% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 2.8% and 15.8% in the past 6 months, respectively. Over the past year, the Zacks sub-industry and the sector are up 12.4% and 34.5%, respectively.

The S&P 500 Index has risen 11.2% in the past 6 months and 25% in the past year.

The stock is currently trading at 2.58X forward 12-month sales, which compares to 0.55X for the Zacks sub-industry, 3.74X for the Zacks sector and 3.56X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.76X and as low as 0.95X, with a 5-year median of 2.06X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$50 price target reflects 2.7X forward 12-month sales.

The table below shows summary valuation data for LOGI

Valuation Multiples - LOGI					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.58	0.55	3.74	3.56
	5-Year High	2.76	6.9	3.74	3.56
	5-Year Low	0.95	0.34	2.3	2.54
	5-Year Median	2.06	5.09	3.01	3
P/B TTM	Current	5.52	0.9	4.69	4.08
	5-Year High	7.77	1.52	4.91	4.18
	5-Year Low	2.25	0.71	3.09	2.85
	5-Year Median	5.13	1.03	4.02	3.41
EV/EBITDA TTM	Current	16.17	6.14	12.71	12.38
	5-Year High	23.09	6.39	12.71	12.86
	5-Year Low	5	1.78	7.68	8.48
	5-Year Median	16.46	3.3	10.52	10.67

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
Dell Technologies Inc. (DELL)	Neutral
HP Inc. (HPQ)	Neutral
Immersion Corporation (IMMR)	Neutral
LG Display Co., Ltd. (LPL)	Neutral
Microsoft Corporation (MSFT)	Neutral
Stratasys, Ltd. (SSYS)	Neutral
Lenovo Group Ltd. (LNVGY)	Underperform

Industry Comparison Industry: Computer - Peripheral Equipment				Industry Peers		
	LOGI Neutral	X Industry	S&P 500	AAPL Outperform	HPQ Neutral	MSFT Neutral
VGM Score	A	-	-	C	B	C
Market Cap	7.98 B	94.43 M	24.43 B	1,387.85 B	31.91 B	1,270.20 B
# of Analysts	2	1.5	13	12	4	14
Dividend Yield	0.00%	0.00%	1.75%	0.97%	3.21%	1.23%
Value Score	C	-	-	D	B	D
Cash/Price	0.07	0.24	0.04	0.07	0.14	0.11
EV/EBITDA	21.86	8.50	14.00	17.62	6.96	20.79
PEG Ratio	2.52	2.72	2.06	2.29	4.81	2.61
Price/Book (P/B)	6.72	1.93	3.39	15.55	NA	11.98
Price/Cash Flow (P/CF)	21.78	9.23	13.69	20.75	7.84	26.21
P/E (F1)	22.71	34.15	19.00	24.06	9.61	31.08
Price/Sales (P/S)	2.76	1.77	2.68	5.33	0.54	9.78
Earnings Yield	4.46%	2.82%	5.26%	4.16%	10.43%	3.22%
Debt/Equity	0.00	0.06	0.72	1.01	-4.01	0.69
Cash Flow (\$/share)	2.19	0.87	6.94	15.26	2.80	6.35
Growth Score	A	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	20.46%	14.62%	10.60%	9.59%	-12.10%	16.25%
Proj. EPS Growth (F1/F0)	5.97%	31.51%	7.57%	10.68%	2.01%	12.80%
Curr. Cash Flow Growth	26.95%	-0.70%	14.00%	-3.74%	8.32%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	16.17%	12.96%	9.00%	7.40%	-18.40%	11.99%
Current Ratio	1.74	2.06	1.23	1.54	0.80	2.85
Debt/Capital	0.00%	5.96%	42.99%	50.36%	NA	40.81%
Net Margin	9.61%	-0.23%	11.15%	21.24%	5.36%	31.66%
Return on Equity	26.63%	1.18%	17.16%	53.82%	-241.43%	39.14%
Sales/Assets	1.38	1.00	0.55	0.76	1.80	0.48
Proj. Sales Growth (F1/F0)	5.66%	3.89%	4.05%	5.75%	-1.20%	11.33%
Momentum Score	A	-	-	B	D	A
Daily Price Chg	2.62%	0.00%	-0.27%	-0.68%	-0.05%	-0.36%
1 Week Price Chg	-1.98%	0.00%	2.29%	2.71%	2.76%	3.57%
4 Week Price Chg	2.12%	3.94%	2.13%	11.36%	6.65%	5.79%
12 Week Price Chg	17.36%	1.47%	6.99%	30.12%	24.77%	16.57%
52 Week Price Chg	41.81%	3.88%	21.25%	106.50%	3.00%	57.55%
20 Day Average Volume	152,425	24,640	1,415,064	27,556,772	6,983,863	18,916,950
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.04%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.66%	0.31%	0.12%
(F1) EPS Est 12 week change	0.00%	0.87%	-0.34%	0.69%	2.19%	2.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.51%	0.15%	0.22%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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